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DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR

DEPT PASS TO USTR CLILIENFELD/AADLER/CHINCKLEY

DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT

TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN

USDA PASS FAS/OCRA/RADLER/BEAN/FERUS

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BEXP, KBIO, KIPR, KWMN, IN

SUBJECT: New Delhi Weekly Econ Office Highlights for the Week of June 15 to June 19, 2009

**¶11. (U)** Below is a compilation of economic highlights from Embassy New Delhi for the week of June 15-19, 2009, including the following:

-- Inflation Hits Negative Territory  
-- India Imposes Restrictions on Chinese Mobiles,  
Extends Tight Norms on Toys and Dairy  
-- Panel Advises Increase in Support Price for Rice  
-- Rise of ATF Prices Lowers Airlines' Thin Profit Margins  
-- CCI First Entree - State of Competition Conference  
-- IT Industry Developing in Bhutan

Inflation Hits Negative Territory

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**¶12. (U)** Government data for the week ending June 6 shows wholesale price inflation (WPI) was negative for the first time in 30 years. The WPI registered -1.61% for the first week of June, compared to the same period the year before. Economists were expecting the WPI to move into negative territory, given the high base effect of June 2008, due to the record high commodity prices at the time. The negative inflation is expected to last 3-6 months, depending on the extent to which the government decontrols energy prices and how much the extraordinary monetary easing around the world translates into inflationary pressures in the months ahead. Some economists expect India's WPI inflation to hit 6-7% by March 2010. The last time India experienced deflation was in the mid-1970s because of the oil crisis.

India Imposes Restrictions on Chinese Mobiles,  
Extends Tight Norms on Toys and Dairy

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**¶13. (U)** The Commerce Ministry's Directorate General of Foreign Trade (DGFT) imposed a ban on June 18, effective immediately, on imports of Chinese mobile handsets without the international mobile equipment identity number (IMEI). The move, according to press, is a result of concerns raised by certain security agencies. Since many sets without any 15-digit IMEI number have reportedly been entering the Indian market from China, the authorities are said to find it difficult to track the sale or usage of these cheap unbranded sets. According to industry estimates, there are approximately 30 million such phones in use in the country.

¶4. (U) In another precautionary measure, the GOI extended an existing ban on import of dairy products from China for another six months effective June 24, 2009. The import of milk and milk products from China was banned in September 2008, following reports of contaminated shipments to other Asian and African countries. The DGFT notification specifies that dairy products include milk chocolates and chocolate products and candies/ confectionary/ food preparations with milk or milk solids as an ingredient. India does not import milk/milk products from China as of now.

¶5. (U) The DGFT also banned until January 2010, in general, all import of toys that do not meet international safety standards and norms. India imposed a ban on Chinese toys in January on health hazard grounds; however, the ban was later eased upon Beijing's challenge on account of discriminatory treatment. The DGFT has now amended and extended the March 2009 notification to include imports of toys not carrying health safety certificates from all countries. The move is expected to hit Chinese suppliers the most as more than half of total toy imports by India are sourced from China.

According to the amended rules, the ban will not be applicable to toys that come with a certificate from laboratories accredited to the International Laboratory Accreditation Cooperation.

Panel Advises Increase in Support Price for Rice

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¶6. (U) An official advisory panel, The Commission for Agricultural Costs and Prices (CACP), has recommended increasing the minimum support price (MSP) for unmilled rice and other grains for the upcoming summer crop. CACP has recommended an MSP in the range of Rs 950-980 per quintal (100kg), an increase of 5 percent over the level in the previous year. MSP is the base price at which the government procures grains from farmers to resell it to the poor at subsidized rates through the public distribution system; MSP also

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sets the base price for private traders. The advisory agency has also recommended higher MSPs for pulses and other grains as well. Farmers in Punjab and Haryana, accounting for one-third of the government's total rice procurement, have reportedly been complaining of rising input costs. The move, if implemented, may please farmers but it would increase the GOI's sizeable food subsidy bill. In the previous fiscal 2008-09, the rice MSP was raised 20 percent to Rs 900 per quintal for common varieties and Rs 980 per quintal for grade A varieties. Panel recommendations will be considered by the Indian Cabinet in the coming weeks although they are not binding on the government.

¶7. (U) Agriculture trade experts are divided on these recommendations. The Head of Agriwatch (a prominent research body on commodities) has been quoted in media as saying that "There is no need for MSP to rise," since the government achieved record procurement last year at Rs 850 a quintal. However, the chief economist at the National Commodity and Derivatives Exchange (NCDEX) has commented that "an upward revision is required, especially when the Consumer Price Index for agricultural labor for 2008-09 has risen by 9.5 percent over the last year."

Rise of ATF Prices Lowers  
Airlines' Thin Profit Margins

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¶8. (U) With the rise in crude oil prices to a seven month high of \$72 a barrel, government-owned oil companies (Indian Oil, Bharat Petroleum and Hindustan Petroleum) have raised the price of aviation turbine fuel (ATF) by 33% since March 2009. ATF prices have gone up from \$665 per kiloliter to \$747 per kiloliter. Recovering from last year's oil shocks, when crude oil peaked at \$147 a barrel, air carriers lowered their fares at the end of 2008 and into 2009 to attract passengers and improve load factors. However, with ATF prices spiraling again, most domestic carriers have announced another round of fare increases. These latest moves will impact air travel in India, since with higher airline prices, passengers may once again shift back to other modes of transport, particularly train travel. The airline industry in India is already battling with overcapacity, rising debt, and falling passenger growth, caused in part by the global financial slowdown. While the industry is taking measures to bring down operating costs, the rise in ATF prices will directly affect airlines and their thin margins given that jet fuel costs comprise almost half of airlines' operating costs.

CCI First Entree - State of

**¶19.** (U) The newly operational Competition Commission of India (CCI) held its first National Conference on the "State of Competition in the Indian Economy" on June 11-12 in New Delhi. The two day conference, organized in collaboration with the World Bank and the UK's Department of International Development (DIFD), brought together national and international competition policy and law experts to discuss a variety of competition issues in Indian markets. CCI organized this conference as part of their competition advocacy mandate and to assist in capacity building for research on competition issues as well as to enable the Commission to better understand the state of competition in different sectors of the Indian economy. Eventually the results of the studies commissioned by the Commission will be used for competition advocacy with central and state governments and with industry.

**¶10.** (U) Inaugurating the conference, the Minister of State for Corporate Affairs Salman Khurshid emphasized the GOI's primary objective, to promote "growth with equity." Towards that end, he expects CCI to play a crucial role in promoting and ensuring free and fair competition in the market. Khurshid expressed strong faith in CCI's work on competition advocacy and in achieving the objectives of the 2002 Competition Act. CCI Chairman Dhanendra Kumar reiterated that the function of the Commission is to help Indian industry "perform better and create a better environment by promoting competition" to benefit all stakeholders, including companies and consumers. While assuring industry that the CCI would not act as a roadblock, he clarified that the industry should also

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get used to this anti-trust watchdog.

IT Industry Developing in Bhutan

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**¶11.** (U) Local media report the Bhutanese government has signed an agreement with a leading Indian IT company, which it hopes will help nurture an IT boom in the small developing country. On June 8, the Bhutanese Government and leading Indian Business Process Outsourcing (BPO) firm, Genpact, signed an agreement under which Genpact will annually recruit 200 Bhutanese graduates from the Royal University of Bhutan (RUB) to be trained and employed in India for two years. After training, the students will return to Bhutan to work in Genpact BPO centers. The agreement, along with the establishment of a nationwide high speed broadband network and IT park that is scheduled to be completed in two years, will help jumpstart an IT industry. The Bhutanese government has prioritized the development of its IT industry in hopes that it will alleviate unemployment.

**¶12.** (U) Visit New Delhi's Classified Website:  
<http://www.state.sgov/p/sa/newdelhi>.

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